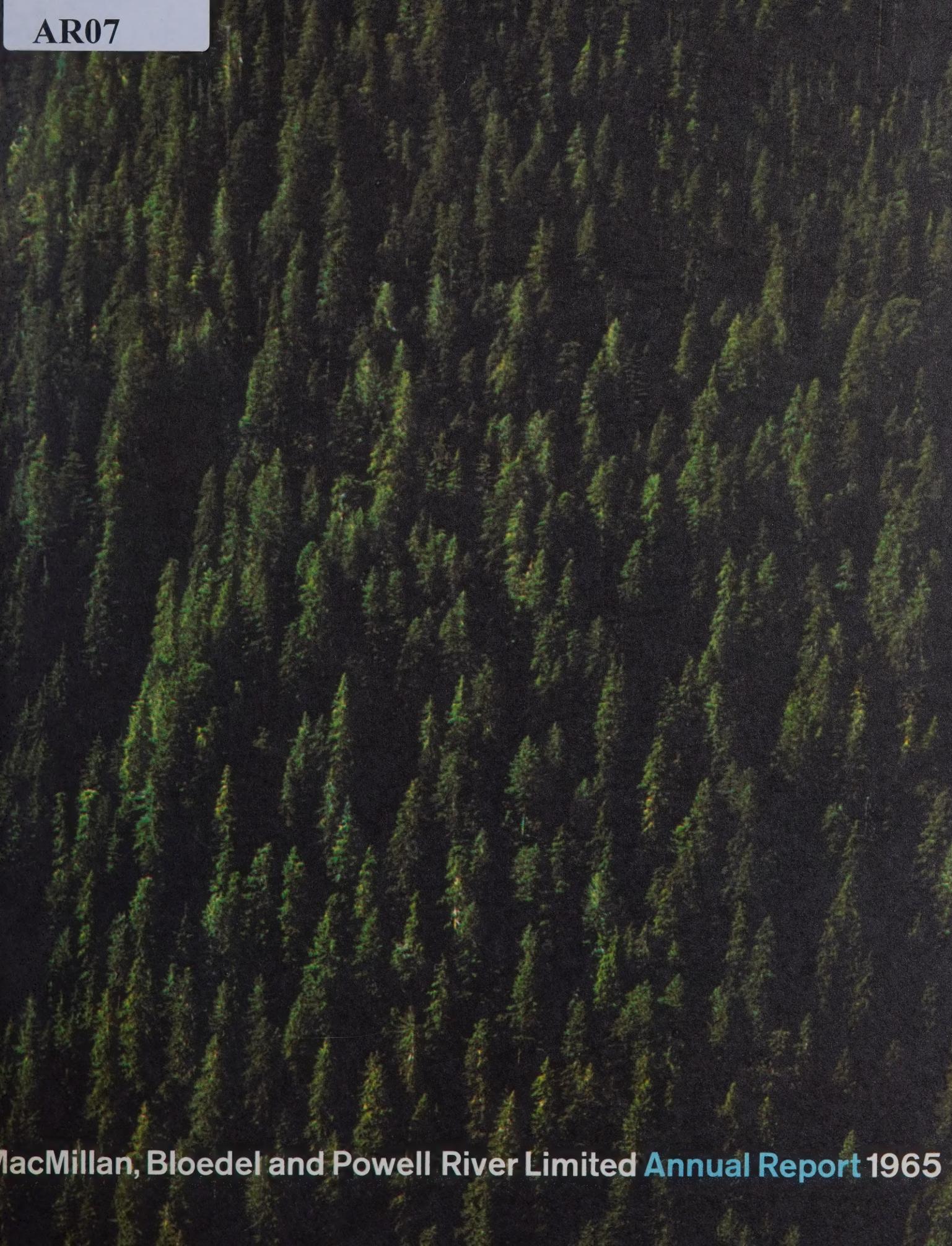


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MacMillan, Bloedel and Powell River Limited Annual Report 1965

Directors

PRENTICE BLOEDEL Bainbridge Island, Washington, U.S.A. *Retired - former Vice-Chairman, MacMillan & Bloedel Limited*
ANSON BROOKS Seattle, Washington, U.S.A. *President, Powell River-Alberni Sales Corporation*
F. H. BROWN Vancouver, British Columbia *President, The White Pass and Yukon Corporation Limited*
J. M. BUCHANAN Vancouver, British Columbia *Retired - former Chairman of the Board, British Columbia Packers Limited*
THE HONOURABLE J. V. CLYNE Vancouver, British Columbia *Chairman of the Board and Chief Executive Officer, MacMillan, Bloedel and Powell River Limited*
MARK COLLINS Vancouver, British Columbia *President, Smith Lithograph Company Limited*
G. D. ECCOTT Vancouver, British Columbia *Vice-President - Finance, and Secretary, MacMillan, Bloedel and Powell River Limited*
GORDON FARRELL Vancouver, British Columbia *Chairman, Ocean Cement & Supplies Ltd.*
L. G. HARRIS Vancouver, British Columbia *Vice-President and General Manager, Pulp and Paper Group, MacMillan, Bloedel and Powell River Limited*
J. O. HEMMINGSEN Vancouver, British Columbia *Vice-President and General Manager, Wood Products Group, MacMillan, Bloedel and Powell River Limited*
JOHN LECKY Vancouver, British Columbia *Vice-President and General Manager, Smith, Davidson & Lecky Limited*
H. R. MacMILLAN Vancouver, British Columbia *Retired - former Chairman, MacMillan & Bloedel Limited*
E. S. McCORD Seattle, Washington, U.S.A. *Partner, Kerr, McCord & Moen, Attorneys*
R. G. MILLER Vancouver, British Columbia *President, Fidelity Life Assurance Company*
H. T. MITCHELL Vancouver, British Columbia *President, Mitchell Press Limited*
E. G. SHORTER Vancouver, British Columbia *Vice-Chairman, MacMillan, Bloedel and Powell River Limited*
S. G. SMITH Vancouver, British Columbia *Retired - former Vice-President and General Manager, Bloedel, Stewart & Welch Limited*
G. T. SOUTHAM Vancouver, British Columbia *President, Pioneer Envelopes Limited*
C. A. SPECHT Vancouver, British Columbia *President, MacMillan, Bloedel and Powell River Limited*
W. J. VanDUSEN Vancouver, British Columbia *Retired - former Vice-Chairman, MacMillan & Bloedel Limited*
FREDERICK WILSON Spokane, Washington, U.S.A. *Investment Counsel*
C. B. WRIGHT, JR. Seattle, Washington, U.S.A. *Real Estate Development*

Officers

THE HONOURABLE J. V. CLYNE *Chairman of the Board and Chief Executive Officer*
E. G. SHORTER *Vice-Chairman*
C. A. SPECHT *President*
G. D. ECCOTT *Vice-President - Finance, and Secretary of the Company*
L. G. HARRIS *Vice-President and General Manager, Pulp and Paper Group*
J. O. HEMMINGSEN *Vice-President and General Manager, Wood Products Group*
A. C. KENNEDY *Vice-President - Industrial Relations*
A. J. GARDNER *Vice-President - Development*
P. M. DOWNES *Vice-President - Corporate Communications*
H. R. CHISHOLM *General Manager - Logging Group*
H. V. TOWNSEND *General Manager - Packaging Group*
Dr. L. A. COX *Director of Research*
G. B. CURRIE *Assistant Vice-President - Finance*
C. G. CHAMBERS *Treasurer*
T. P. BOYLE *Corporate Controller*
F. H. BRITTON *Corporation Solicitor*
A. P. MacBEAN *Chief Forester*
E. N. WALTON *Manager - Central Engineering Department*
R. D. MacFAYDEN *Assistant Secretary*
J. G. C. CUNNINGHAM *Assistant Secretary*

Executive Committee

THE HONOURABLE J. V. CLYNE (Chairman)
PRENTICE BLOEDEL
F. H. BROWN
L. G. HARRIS
J. O. HEMMINGSEN
H. R. MacMILLAN
R. G. MILLER
E. G. SHORTER
C. A. SPECHT
W. J. VanDUSEN

Registrars and Transfer Agents

THE ROYAL TRUST COMPANY, Vancouver
THE CANADA TRUST COMPANY, Montreal, Toronto, Winnipeg

Auditors

PRICE WATERHOUSE & CO., Vancouver

AR07

CONFIDENTIAL

HOLD FOR RELEASE

After 2:00 A.M. Pacific Standard Time
5:00 A.M. Eastern Standard Time

FRIDAY MAR 11 1966

PLEASE GUARD AGAINST
PREMATURE RELEASE

MacMillan, Bloedel
and
Powell River
Limited
and Subsidiary Companies
Interim Report
to the
Shareholders
for the
Year Ended
December 31, 1965

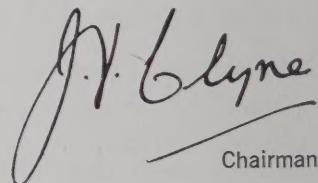
Interim Report to the Shareholders for the Year Ended December 31, 1965

In the past we have waited until the issuance of the Annual Report to advise shareholders of the financial results of the year. For various reasons it has been considered desirable to change this practice and to inform shareholders of the results for the year as soon as the financial statements have been confirmed by the Company's auditors.

This is a short interim report for 1965, so that shareholders may become aware of the results as early as possible. The complete financial statements together with the Auditors' Report will be contained in the Annual Report to the Shareholders, which will be sent out later, in the usual manner, before the Annual General Meeting in April.

The Consolidated Net Earnings for 1965 amounted to \$40,594,282, as compared with \$41,440,597 in 1964, a decrease of \$846,315, or 2%. Sales and Other Income in 1965 were \$437,182,442, an increase of 6% over the previous year.

Vancouver, B.C.
March 10, 1966


Chairman

Sales and Other Income	
Profit before deducting undernoted items	
Depreciation, Depletion and Amortization	
Current Income Taxes	
Earnings before deducting Deferred Income Taxes	
Deferred Income Taxes	
Net Earnings for the Year	
Earned per Share	

	Year Ended December 31 1965	1964
Sales and Other Income	\$437,182,442	\$413,308,840
Profit before deducting undernoted items	\$102,608,244	\$108,806,195
Depreciation, Depletion and Amortization	23,976,158	29,007,429
Current Income Taxes	25,830,811	32,799,104
Earnings before deducting Deferred Income Taxes	49,806,969	61,806,533
Deferred Income Taxes	52,801,275	46,999,662
Net Earnings for the Year	12,206,993	5,559,065
Earned per Share	\$ 40,594,282	\$ 41,440,597
	<u>\$ 1.95</u>	<u>\$ 1.99</u>

APRIL 9,

1966

Head Office

1199 West Pender Street, Vancouver 1, B.C.

Logging Operations, Plants and Warehouses

Logging Operations, B.C.

Cameron	Menzies Bay	Shawnigan
Copper Canyon	Misery Creek	Sproat Lake
Franklin River	Nanaimo River	Squamish
Half Moon Bay	Northwest Bay	Stillwater
Harbledown	Port Hardy	Wakeman
Kelsey Bay	Queen Charlotte	Wilson Creek
Kennedy Lake		

Cedar Pole Yards

Nanaimo River, B.C.	Port Alberni, B.C.
New Westminster, B.C.	

Lumber

Chemainus, B.C.	Port Alberni, B.C.
Harmac, B.C.	Powell River, B.C.
New Westminster, B.C.	Vancouver, B.C.

Plywood

Port Alberni, B.C.	Vancouver, B.C.
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Wood Product Specialties

Hudson Bay, Sask. - <i>Aspenite</i>	
Port Alberni, B.C. and Vancouver, B.C. - <i>Shingles</i>	
Vancouver, B.C. - <i>Particleboard, Pres-to-logs, Specialty Board</i>	

Newsprint

Port Alberni, B.C.	Powell River, B.C.
--------------------	--------------------

Pulp

Harmac, Nanaimo, B.C. - <i>Bleached Sulphate</i>	
Port Alberni, B.C. - <i>Unbleached Sulphate</i>	
Powell River, B.C. - <i>Unbleached Sulphite</i>	

Specialty Paper Products

Annacis Island, New Westminster, B.C.	
---------------------------------------	--

Fine Papers

Burnaby, B.C.	
---------------	--

Paperboard and Roofing Felts

Paper Bags

Folding and Rigid Boxes

Port Alberni, B.C.	
--------------------	--

Kraft Paper, Corrugating Medium and Linerboard

Powell River, B.C.	
--------------------	--

Corrugating Medium and Coarse Papers

Container Plants

<i>Manufacturing a wide variety of corrugated containers</i>	
--	--

CANADA

Calgary, Alberta	UNITED KINGDOM
Edmonton, Alberta	Hatfield, Herts.
New Westminster, B.C.	Nelson, Lancs.
Regina, Saskatchewan	Southall, Middx.
Winnipeg, Manitoba	Weston-Super-Mare, Somerset

Canadian Sales Offices and Warehouses

Wood Products

EASTERN

Drummondville, Que.	Winnipeg, Man.
Montreal, Que.	Regina, Sask.
Quebec City, Que.	Saskatoon, Sask.
Rimouski, Que.	Edmonton, Alta.
Ottawa, Ont.	Calgary, Alta.
Toronto (Islington), Ont.	Lethbridge, Alta.
London, Ont.	Vancouver, B.C.
Windsor, Ont.	
Fonthill, Ont.	

WESTERN

Winnipeg, Man.	
Regina, Sask.	
Saskatoon, Sask.	
Edmonton, Alta.	
Calgary, Alta.	
Lethbridge, Alta.	
Vancouver, B.C.	

Principal Subsidiary Companies

Canadian Transport Company Limited

Cooks Corrugated Cases Limited

Hygrade Corrugated Cases Limited

Kingcome Navigation Company Limited

MB & PR Sales Inc.

MacMillan, Bloedel & Powell River Industries Ltd.

MacMillan, Bloedel & Powell River (Alberni) Ltd.

MacMillan, Bloedel and Powell River (Alberta) Limited

MacMillan, Bloedel and Powell River (B.C.) Limited

MacMillan, Bloedel and Powell River (Man.) Limited

MacMillan, Bloedel and Powell River (Ontario) Limited

MacMillan, Bloedel and Powell River (Quebec) Limited

MacMillan, Bloedel and Powell River (Saskatchewan) Limited

MacMillan Bloedel Pulp and Paper Sales Limited

Martin Paper Bags Ltd.

Martin Paper Products Ltd.

National Paper Box Limited

MacMillan, Bloedel and Powell River Limited



Summary of Significant Facts

	Year Ended December 31 1965*	Year Ended December 31 1964
EARNINGS		
Income		
Sales of products and services.....	\$434,289,256	\$409,564,544
Other income.....	2,893,186	3,744,296
Total income.....	<u>\$437,182,442</u>	<u>\$413,308,840</u>
Earnings before income taxes.....	\$ 78,632,086	\$ 79,798,766
Net earnings after income taxes		
Amount.....	\$ 40,594,282	\$ 41,440,597
Per share.....	\$ 1.95	\$ 1.99
Earnings after current income taxes		
but before providing for deferred income taxes		
Amount.....	\$ 52,801,275	\$ 46,999,662
Per share.....	\$ 2.53	\$ 2.25
Charge for		
Depreciation.....	\$ 17,405,735	\$ 22,856,227
Depletion.....	3,279,980	2,936,305
Amortization of logging roads.....	3,290,443	3,214,897
Earnings retained in business at end of year.....	<u>\$ 23,976,158</u>	<u>\$ 29,007,429</u>
	\$148,358,916	\$132,807,240



Water bombers play vital part in fire control.

	Year Ended December 31 1965*	Year Ended December 31 1964
CAPITAL EXPENDITURES.....	\$ 52,324,668	\$ 78,439,712
 DIVIDENDS		
Cash – Ordinary shares		
Amount.....	\$ 20,848,755	\$ 20,846,255
Per share.....	\$ 1.00	\$ 1.00
Cash – Preference shares		
Amount.....	\$ 24,600	—
Per share.....	\$.03	—
Stock		
Amount.....	\$ 4,169,251	\$ 4,169,251
Per share.....	\$.20	\$.20
 EMPLOYEES		
Wages, salaries and employee benefits.....	\$101,485,089	\$ 89,500,618
Number at end of year.....	14,930	14,360
 SHAREHOLDERS		
Number at end of year.....	23,135**	20,597**

*Statistics and charts throughout this report conform to the Financial Statements (See note 1).

**Excluding holders of share warrants.

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS: MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED

Consolidated net earnings for 1965 amounted to \$40,594,282 as compared with \$41,440,597 in 1964, a decrease of \$846,315, or 2%. Sales and other income for 1965 were \$437,182,442, as against \$413,308,840 in the previous year, representing an increase of \$23,873,602, or 6%. Depreciation, depletion, and road amortization amounted to \$23,976,158 as compared to \$29,007,429 in 1964. The sum of \$12,206,993 was added to the reserve for deferred income tax which now stands at \$32,252,888. The reason for setting up such reserve has been fully explained on previous occasions, and is also mentioned in the notes to the financial statements appended hereto.

A broad review of the results for the year shows that the predominant factor was the increase in the cost of doing business, with the result that, notwithstanding higher sales, the profits were lower. The increase in cost took many forms, not only in wages and salaries but in the different fields of taxation, supplies, and the great variety of out-

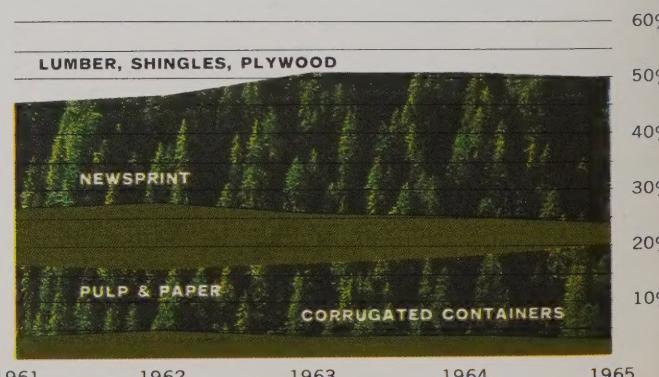
goings applicable to a large organization. The trend continues. Wages, salaries and employee benefits have increased from \$89,500,618 in 1964 to \$101,485,089 in 1965. Stumpage rates payable to the Provincial Government have almost tripled over the last four years and Provincial land taxes nearly doubled.

The disparity in the profits between 1964 and 1965 is greater than would appear on the surface. Prior to 1964, what is known as the diminishing balance method of depreciation was used, which had the effect of charging heavy depreciation in the early years when maintenance was light, with the reverse being the case in the later years. In 1964, it was decided to change to straight line depreciation, the method by which the cost of the asset is distributed equally over its anticipated life. While this change did not have a significant effect on the 1964 profits, such was not equally true for 1965. Moreover, the further change was made in 1965 of charging road amortization according to log pro-

SALES OF PRODUCTS AND SERVICES



PERCENTAGE CONTRIBUTION TO SALES BY PRODUCTS



duction from the timber developed, instead of charging a fixed percentage of the total cost of roads on a diminishing balance basis. It is estimated that these two changes of method, which were considered desirable in order to reflect a more accurate picture of annual earnings and to afford better cost control, resulted in an increase in the net profits of approximately \$3,000,000 as compared with profits based on past accounting procedures.

Although the foregoing observations are important and are to be borne in mind in any review of the year's results, it can be said that, on the whole, it was a reasonably satisfactory year. Markets maintained their activity, and the Company's products were sold in good volume and, apart from newsprint, at prices more or less in line with the preceding year. The Company's profits rose in 1964 by reason of the large expansions at Harmac and Port Alberni. 1965 can be regarded as a year when strenuous efforts were made to maintain the level of profits of the previous year, and

to lay plans for further expansion in the future, to which reference will be made later in this report.

Production figures for the year compared with the previous year were as follows:

PRODUCT	UNIT	1965	1964
Logs	(M FBM)	1,339,929	1,207,872
Lumber	(M FBM)	1,014,757	915,206
Plywood	(M Sq. Ft. $\frac{3}{8}''$)	386,457	374,036
Shingles	(Squares)	479,983	452,002
Newsprint	(Short Tons)	843,968	790,850*
Pulp	(Short Tons)	556,135	483,773
Kraft Paper and			
Paperboard	(Short Tons)	173,018	159,683*
Fine Paper	(Short Tons)	17,868	14,482
Corrugated			
Containers	(M Sq. Ft.)	699,881	679,291

*Includes tonnage purchased during strike.

SALES OF PRODUCTS BY MARKETS

1965 1964

U.S.A.	40.7%	40.0%
B.C.	9.0%	8.9%
REST OF CANADA	14.5%	16.4%
U.K.	14.3%	15.8%
JAPAN & ORIENT	5.8%	6.8%
OTHER	15.7%	12.1%

DISTRIBUTION OF TOTAL INCOME

1965 1964

PURCHASES OF GOODS, SUPPLIES AND SERVICES	50.5%	49.9%
WAGES, SALARIES AND EMPLOYEE BENEFITS	23.2%	21.7%
FEDERAL, PROVINCIAL & MUNICIPAL DIRECT TAXES	11.5%	11.4%
DEPRECIATION, DEPLETION & AMORTIZATION	5.5%	7.0%
DIVIDENDS	5.7%	6.0%
EARINGS RETAINED	3.6%	4.0%

Logging Group

In the early part of the year there were heavy falls of snow, which hampered operations considerably, and in many areas made the continuation of logging impossible. This was followed by a prolonged period of dry, sunny weather in the summer which brought with it extremely hazardous fire conditions necessitating curtailment in production for the sake of forest protection. At the end of the year, there were further abnormal snowfalls. Such unusual weather conditions inevitably had their adverse effect on production costs.

Notwithstanding these difficulties, production was increased in the year to 1,340 MM feet board measure, which was 11% higher than in 1964. This figure included 360 MM FBM of logs produced by 165 independent contractors, ranging from the single owner operating one logging truck to the fully equipped logging operator. These contractors, who employ nearly 1,000 men in total represent an important part of the independent business in the communities in which we operate.

The Company cuts from its own holdings and its Tree Farm Licences the maximum production that is commercially feasible within the cutting limits established by the Licences. In addition to such production, including that of independent contractors, logs are purchased on the open market in order to meet the requirements of the Company's converting operations.

Logs were purchased on the open market in a net volume of 372 MM FBM, which was a 40% increase over the 1964 figure. Trading in logs takes place in considerable volume

in order to procure logs of the species and grade required by the Company's converting operations. This Company is the largest log buyer on the open market in British Columbia. During the year, the Company gave substantial financial assistance by way of loans to independent loggers. The increase in Crown stumpage rates, to which reference was made in the report last year, continues although the estimate for 1965 proved to be higher than the actual result. The following table shows the trend of increasing Crown stumpage rates.

	Average Rate Per M FBM
1961	\$ 4.76
1962	4.79
1963	6.09
1964	10.69
1965	13.28

In addition to stumpage payments, the Company is responsible for the protection of Crown timber under management, from fire, insects and diseases. It also has the obligation to reforest as it logs.

The construction of the new community townsites situated near the Company's logging operations at Port Hardy and Kelsey Bay in the northern part of Vancouver Island is progressing satisfactorily. Subdivisions have been established; lots have been serviced; and some forty houses have already been built or are in the course of construction. These are subsidized by the Company in order to attract long-term employees, and to retain skilled personnel. A further subdivision at Port Clements, at Masset Inlet,

Queen Charlotte Islands, has made slower progress because of the difficulties in interesting contractors at the present time in isolated communities.

The Company's subsidiary, Kingcome Navigation Company Limited, has had a successful year. Its towboat activities are spread over the entire coast of British Columbia and provide for the movement of logs by water from the Company's logging operations to the converting mills as well as the movement of lumber, pulp and newsprint for trans-shipment to local and foreign markets. At

Forestry

The intensive forestry program which is designed to utilize to the fullest practicable extent the potential growth capacity of the timberland, has now been expanded to all areas under the Company's management. The program embraces practices which are far in advance of legislative or contractual obligations. The benefits of this advanced form of forest management are already being enjoyed in the form of increased production which will continue in the future.

In recent years it has become apparent that the balsam woolly aphid, which has created such widespread damage in Eastern Canada, has spread to British Columbia. This is a minute insect which attacks the tree by affixing itself to the bark and feeding on the sap.

In view of the destruction caused by this aphid, the Provincial and Federal Governments, in response to strong representations by the forest industry, have undertaken

present, it operates 30 tugs and barges, including three self-dumping barges each capable of carrying 1,500 M FBM of logs.

Production of cedar poles from the Company's operations showed an appreciable increase in 1965 to 42,530 as against 34,590 in 1964. A new pole yard on the Fraser River near New Westminster has been almost completed and it is expected that it will greatly facilitate the inspection and assembly of poles from the Company's logging operations, as well as those from independent suppliers.

comprehensive survey and research studies to define the boundaries of the infestation and to determine means of controlling and, if possible, eliminating this very serious threat to the forests.

The Company's tree planting program is continuing, and a significant milestone will be reached early in 1966 when a total of 50 million trees will have been planted in the Company's operations.

In 1965, Forest Industries Flying Tankers Limited, in which the Company is a major partner, converted a second Martin Mars aircraft into a flying tanker. With two machines in operation during a dry and hazardous summer, the 1965 flying activity exceeded that of the total of the past five years. The aircraft made 314 water drops on 23 fires for a total of 1,516,000 gallons. The use of a chemical additive to the water improved results. The Company's fire loss during the year was of minor significance.

Wood Products Group

LUMBER

This product had a record sales year in 1965. The Japanese market reflected the boom conditions in construction, which continued in the face of a disturbed economic background. The strength of the U.S. Atlantic Coast market was attributable to active domestic demand, augmented by the pressures of military requirements. In the United Kingdom business slowed down due to economic difficulties. The Australian market started vigorously, but lost its impetus toward the end of the year. Broadly speaking, prices were strong in the spring, but weakened slowly towards midsummer, and then made a good recovery.

PLYWOOD

The volume of shipments and average sales prices were slightly lower than in the previous year. There was no marked change in the proportions of sales to domestic and overseas markets, the former representing 79% and the latter 21%. The spring domestic market, after a severe winter, was slow and inventories were allowed to increase, which proved to be sound policy, since later in the year demand outstripped production.

The Company for many years had served as the sales agent for a mill in the interior of the Province, which was sold to a competitor. The loss of this major source of fir and spruce sheathing required the manufacture of a high percentage of sheathing in the Company's own mills,

Converting costs, while subject to considerable pressure through higher wage and salary rates, were kept under firm control by efficient management, new equipment, and the introduction of improved procedures. In particular, improved methods were introduced in lumber-cutting programs which ensured the best combination of logs to mills in relation to markets.

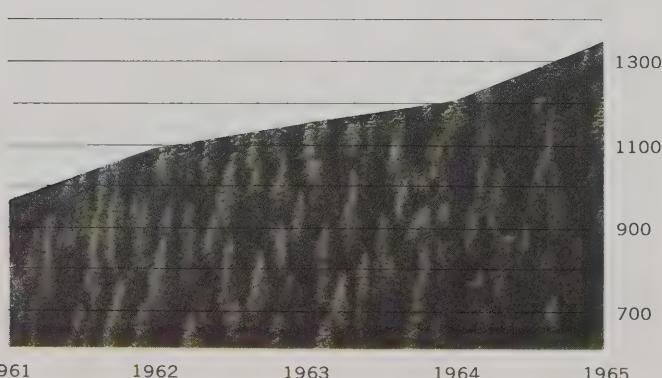
The contract under which this Company sells lumber, plywood and shingles produced by British Columbia Forest Products Limited continues to operate to the satisfaction of both companies.

which was a matter of necessity rather than choice. A new source of supply has been developed by the Company through a contract with Canim Lake Sawmills Limited, also in the interior of British Columbia, for the sale of the production of its new plywood plant which commenced operations in August.

New overseas markets were developed in Italy and Sweden, and while the United Kingdom market narrowed in response to the restrictive measures imposed by the government to curtail imports, activity in the European markets more than offset this decline. Canadian prices, while showing a definite downward trend to mid-year, strengthened in response to increased demands later in the year.

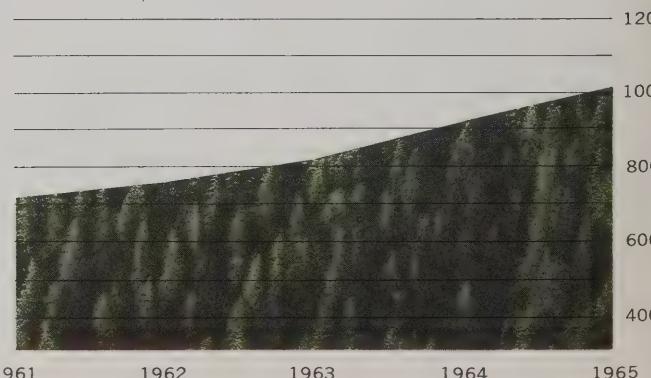
LOGS

PRODUCTION, MILLION BOARD FEET



LUMBER

PRODUCTION, MILLION BOARD FEET



Costs were higher, due principally to wage and salary rates, but also in part to the expenses incidental to the

SHINGLES

The Company's principal market in the United States deteriorated during the year due to overproduction. Shingles, while an important and interesting part of the

ASPENITE

In April 1965, the Company purchased a building panel mill at Hudson Bay, Saskatchewan, some 260 miles northeast of Regina.

It is a comparatively small operation, but the panelboard, which can be used for many purposes, constitutes an im-

PARTICLEBOARD

The operations commenced in February 1965, and while the initial period had some difficulties, these were successfully overcome, with the result that the outlook is reasonably encouraging. Marketing arrangements were changed

LUMBER AND PLYWOOD SPECIALTIES

Towards the end of the year, the specialty board plant on the North Arm of the Fraser River commenced partial operations.

It is expected that this plant will become fully operative

running in of new machines and equipment, the benefits of which should become apparent in the latter half of 1966.

Company's activity, do not normally make a substantial contribution to profit. Costs were high and, on the whole, results were somewhat disappointing.

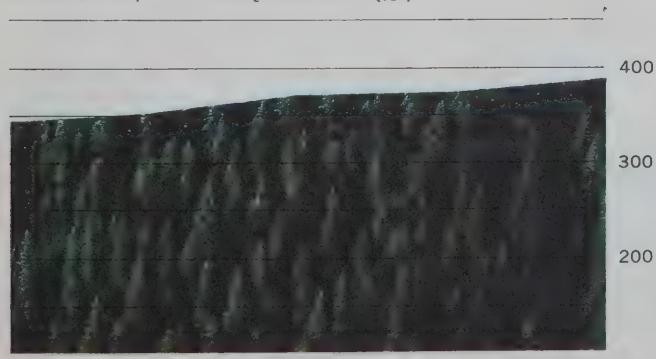
portant addition to the Company's diversified line of products. Progress has been encouraging with higher production and lower manufacturing costs. Demand continues to be satisfactory, and the market is being steadily broadened.

with the result that the product is now being shipped to dealers not only in British Columbia, but to the Prairies and Eastern Canada. It is an excellent material and is rapidly establishing a high reputation.

in 1966, and will manufacture a number of specialty products, such as coated concrete forms, prefinished exterior panels, and various forms of siding, which will be progressively introduced to the market during the year.

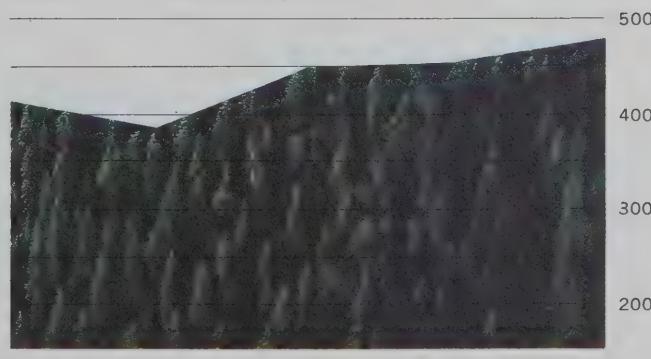
PLYWOOD

PRODUCTION, MILLION SQUARE FEET (%)



SHINGLES

PRODUCTION, THOUSAND SQUARES



Pulp and Paper Group

NEWSPRINT

Notwithstanding the reduction in the price of newsprint which took effect at the end of 1964, the dollar sales volume in 1965 exceeded that of the preceding year by 3%.

The improvement in the sales outlook, to which reference was made in the previous report, took place as expected and, apart from a very short period in the second quarter, the newsprint machines operated at full capacity. This year was the first full year of operation of the No. 5 machine at Port Alberni which, after some corrections to the dryer sections, settled down to normal operation. Its performance is now up to original expectations.

Despite high operating rates, a number of improvements were made at the Powell River mill. Significant among these were renovations to the pulping and paper making facilities. Modifications were also made permitting greater flexibility in the simultaneous manufacture of different grades of paper. The Powell River mill made good progress

during 1965 but much modernization remains to be done. The sawdust refiner groundwood operation at Port Alberni has now been completed at a cost of some \$4,000,000 and there is every reason to believe that this pilot plant, which has been the object of extensive research, will prove completely successful. Its operation will enable sawdust to be put to a better use than in the past, and important savings are expected.

Transportation of part of the newsprint from the Company's mills to California by barges capable of carrying about 7,000 tons each voyage has commenced, the first barge having already made a successful trip to California. Three hundred and fifty-six feet long, it is totally enclosed and is equipped with doors for sideloading, which enable newsprint to be moved directly in and out of the barge by lift truck with a minimum risk of damage. Considerable economies are anticipated.

PULP

The Company's sulphate pulp mills at Harmac and Port Alberni operated at full capacity throughout the year. Prices were reasonably steady in North America, but declined abruptly in Europe during the last half of the year due to anticipated overcapacity in that area.

At Harmac, considerable improvements and additions were effected, including a new boiler, additional dryer sections in the No. 3 pulp machine and replacements of mill water lines, all of which involved a cost of \$4,300,000.

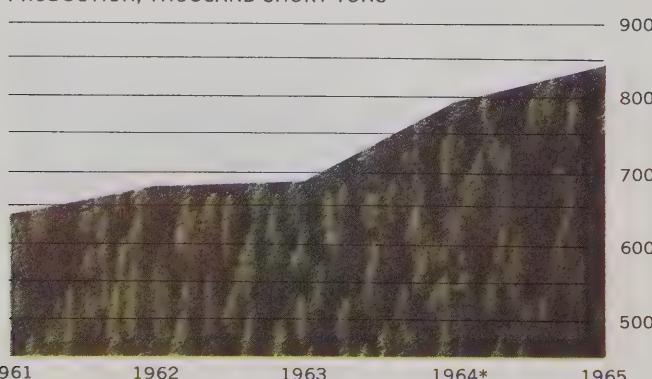
At Port Alberni, the kraft mill expansion, including the installation of a Kamyr continuous digester, was substantially completed during the year with the estimated final cost being \$11,400,000.

Up until last year, the sale of the Company's pulp in

Europe and elsewhere was handled by Price & Pierce Limited of London, England, who, as the Company's agents, have performed admirably through the years in marketing the Company's production. However, circumstances arose which forced Price & Pierce to withdraw from the agency in the United Kingdom. In the light of such withdrawal and in view of the very substantial quantities of pulp which the Company manufactures for a wide range of customers, it was decided after thorough study that the Company should itself market its pulp in the United Kingdom and also in the United States. The Company has therefore opened an office in London under the name of MacMillan Bloedel Pulp and Paper Sales Limited which will market all our pulp, paper and specialty products in the United Kingdom. Similarly, offices have been

NEWSPRINT

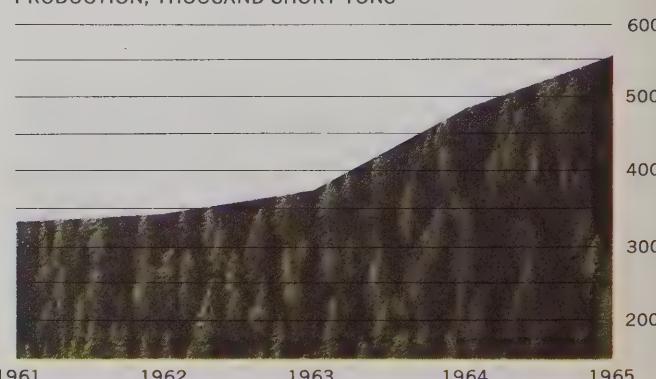
PRODUCTION, THOUSAND SHORT TONS



*Includes tonnage purchased during strike.

PULP

PRODUCTION, THOUSAND SHORT TONS



opened in New York and elsewhere in the United States under the name of MB & PR Sales Inc. for the sale of pulp. In Japan and the Far Eastern markets generally, pulp is sold through MacMillan Jardine Limited, a company formed in association with the old and well established firm of Jardine, Matheson & Co., Ltd. in the Orient. MacMillan

FINE PAPER

Sales increased steadily during the year so that the mill at Annacis Island near New Westminster became almost wholly engaged in the manufacture of various types and grades of fine paper. Owing to the growing demand for fine papers, it will no longer be practicable to use part of

KRAFT PAPER AND PAPERBOARD

Sales of linerboard and corrugating medium, both in volume and price, were very satisfactory throughout the year. In the United Kingdom, which is the principal market for these products, the 10% surcharge on imports resulted in increased competition from board made of waste materials. Notwithstanding this, there was an increase in market prices of linerboard and corrugating medium, which took effect in May. A substantial portion of our linerboard production is purchased at market price by our subsidiaries in

GENERAL

Virtually all production facilities of the Pulp and Paper Group were operated at full capacity, resulting in the

POWELL RIVER EXPANSION

The expansion of the Powell River facilities is well advanced from the point of view of design, and most major equipment has been ordered. The new groundwood mill is scheduled for completion in the autumn of 1966. No. 10 newsprint machine is expected to start up in April 1967, and the new woodroom and lumber recovery plant is

Jardine Limited, in which our Company owns a major interest, is becoming increasingly valuable in the marketing of pulp, paper, lumber, newsprint and other products of the Company in that area.

In other parts of the world, Price & Pierce continue to act as our agent for the sale of pulp.

the capacity of the mill for kraft paper, which is being manufactured elsewhere in the Company's operations. Two new sheet cutters have been installed at a cost of \$235,000 to provide additional production and better service to customers.

England – Hygrade Corrugated Cases Limited, and Cooks Corrugated Cases Limited.

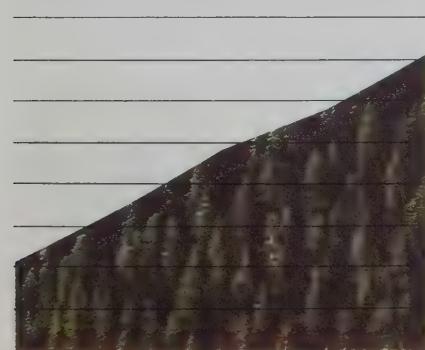
Work on the kraft paper machine at Port Alberni to increase production and improve quality was completed towards the end of the year, at a cost of over \$700,000, and the future annual output should be greater by 10,000 tons. At Burnaby, the production of paperboard reached an all-time high while roofing felt production stayed at approximately the same level as last year. Prices remained firm.

total pulp and paper production exceeding past records by about 14%. The outlook for 1966 is for full operation.

planned to come into operation in the latter part of 1967. The semi-bleached kraft pulp mill should be ready at the end of 1968 which will enable major operating economies to be effected, since it will then no longer be necessary to ship chemical pulp from Harmac to Powell River for the manufacture of newsprint.

FINE PAPER

PRODUCTION, THOUSAND SHORT TONS



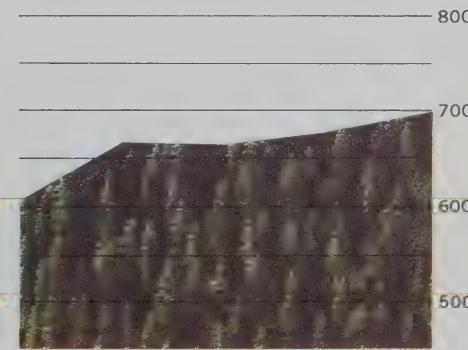
KRAFT PAPER AND PAPERBOARD

PRODUCTION, THOUSAND SHORT TONS



CORRUGATED CONTAINERS

PRODUCTION, MILLION SQUARE FEET



*Includes tonnage purchased during strike

In Canada, this Group consists of Martin Paper Products Ltd., manufacturers of corrugated shipping containers and related products; National Paper Box Limited, manufacturers of folding and rigid cartons and Martin Paper

CORRUGATED CONTAINERS

The five corrugated container plants of Martin are located in major cities of Western Canada. All are modern and well equipped. Despite somewhat depressed prices in the first part of the year, sales were higher than in the previous period by about 5%. Frost damage in the fruit industry in British Columbia affected sales to some extent but apart from this there were no unusual difficulties.

In the United Kingdom, Hygrade Corrugated Cases Limited and Cooks Corrugated Cases Limited had a difficult year. The accounts of these two companies are not consolidated, but the equity in the profits is included in the Consolidated Statement of Earnings. The equity for 1965 was \$1,595,000 as compared to \$2,067,000 in 1964. The decrease was directly due to the general economic conditions in the United Kingdom which had their adverse effect on the whole industry. The competition for the available business

FOLDING AND RIGID BOXES

National Paper Box Limited, in its new plant, is operating satisfactorily, and sales are increasing steadily. The market is highly competitive, and while progress has been somewhat slower than anticipated, it is developing along sound

BAG DIVISION

The bag plant had a good year, with higher sales and improved profits. There was keen competition from domestic

Research

Following an extensive study of the Company's research facilities and organization by an eminent firm of outside consultants, the Company created a new position, Director of Research, which was filled by the appointment of Dr. Lionel A. Cox, formerly a Vice-President and Director of Research and Engineering of Johnson & Johnson, New Jersey. Dr. Cox is responsible for a research and development program on an intensified scale to develop new and improved products, as well as providing new sources of

Bags Ltd., manufacturers of grocery and checkstand bags. The year was notable for increased sales and better profits. The greater part of the raw material in the form of kraft paper and paperboard is obtained from our own mills.

was extremely keen, with a consequent effect on price levels. Moreover, to remain competitive, these companies were compelled to purchase an increasing volume of home-produced raw material made from waste, the manufacture of which was encouraged by the import surcharge. A new plant of Hygrade Corrugated Cases Limited was opened in October 1965 at Weston-Super-Mare in the west of England, and although its start was made under difficult conditions, it is making good progress. The original plans contemplated the opening of a further plant in the north of England. This is still receiving consideration. Improvement in the earnings of these companies is confidently expected to follow the stabilization of trading conditions in the United Kingdom. In the meantime, as has been previously mentioned, these companies afford a steady market for our linerboard production.

lines. The plant is equipped with modern and efficient machinery, the personnel is keen, and it should be only a matter of time before the benefits of the new plant are reflected in sales and profits.

and United States suppliers, but attention to service and new designs helped to extend the market for its products.

corporate earnings. The Company's four research laboratories at Harmac, Powell River, Burnaby and Vancouver are under his care and direction.

Research studies are being pursued over a wide field. A modification in the kraft chemical pulping process is being investigated, having regard to interesting possibilities of cost reduction through the increase of kraft pulp yields. Efforts are being made to obtain greater knowledge of the physical behaviour of fibres during the formation of papers.

Improved drying techniques for lumber and plywood are being explored. The development of new chemical products from trees through the conversion of wood bark and other residues is another important area of research.

Distribution

The problems handled by this Division are highly complex due to the volume and variety of the Company's goods which are transported from the Company's mills and plants to markets in all parts of the world. The total freight bill for the Company amounted to about \$85,000,000 in 1965. Great changes have taken place in recent years. Larger ships of special design are being built; handling equipment has been greatly improved; containers are being used to an increasing extent; and special port facilities are being developed. The consequences have had and will have far-reaching effects on the movement of goods.

The Company has been a pioneer in the packaging of lumber, the first shipment having been made to the Atlantic Coast market in 1959, when this new method met with an excellent reception. Today, all our cargo lumber to the U.S. Atlantic Coast is shipped in this form, as well as a very large percentage of the shipments to Japan and the United Kingdom.

Large cargo ships present their own problems. A ship carrying possibly three or four times the load of an average cargo ship of ten years ago requires longer berths,

Air and water pollution continues to receive most careful study. While much has been done in recent years, the problems of the causes and effects of pollution have not yet been fully solved.

deeper water, and more efficient facilities for the reception and delivery of the goods. Cargo ships of the Liberty type are all over twenty years old, and although they still represent possibly 15 to 20% of the cargo capacity of the charter fleet, they are passing out of existence and will be replaced by the larger vessels.

The cargo volume handled by the Company's wholly-owned subsidiary Canadian Transport Company Limited was the largest in its history, amounting to 1,407,000 long tons. Heavy shipments were made to the U.K./Continent, the U.S. Atlantic Coast, Japan, Australia, and Italy. Return cargoes were obtained in good volume.

The charter freight market has been moving upward more or less steadily since 1958. At the end of 1965 the world freight levels were about 10% above those at the beginning of the year.

There was serious congestion in the Japanese ports, as the result of a Japanese seamen's strike which lasted several months. There was also a longshoremen's strike on the U.S. Atlantic Coast. These caused considerable delays and added expense.

Central Engineering

This Department has been substantially enlarged to organize the expansion at Powell River, which as previously mentioned includes a newsprint machine, a kraft pulp mill, and a lumber recovery unit. Most of the very extensive site development work has now been finished, and living

quarters for the construction workers and a pulp and paper warehouse have already been completed. Structural work on the groundwood and screen room facilities is well advanced and the driving of steel piling for the additional newsprint building and machine has been finished.

Central Purchasing

The dollar volume of orders placed during the year increased by 6% to \$50,000,000, excluding capital equipment required for plant expansion purposes. One major item was the purchase of 57 logging trucks and trailers for the Logging Group, at a cost of over \$3,000,000. This repre-

sented one of the largest purchases of its type in Canada. On the whole, prices paid during the year were little different from the 1964 level. However, recently a number of increases in basic materials have been announced, including copper, steel and chemicals.

Capital Expenditures

The total expenditure for the year was \$52,324,668 grouped under the following headings:

LOGGING

Purchases of timber, acquisition of new logging equipment, construction of roads, progress payments on newsprint barges and tug and other additions to the towing fleet \$16,851,717

WOOD PRODUCTS

Completion of Alberni Plywood Division expansion, modernization of Vancouver Plywood Division facilities, construction of Specialty Board Plant, acquisition of Aspenite Division and general improvements to mills.. 9,327,102

PULP AND PAPER

Expansion project at Powell River Division, refiner groundwood facilities at Alberni Pulp and Paper Division, power boiler at Harmac Pulp Division and general improvements to operations 25,761,451

PACKAGING

General improvements to facilities 138,854

GENERAL

Sundry additions 245,544

\$52,324,668

Consolidated Statement of Source and Application of Working Capital

FOR THE YEAR ENDED DECEMBER 31 1965 (WITH A COMPARABLE STATEMENT FOR THE PRECEDING YEAR)

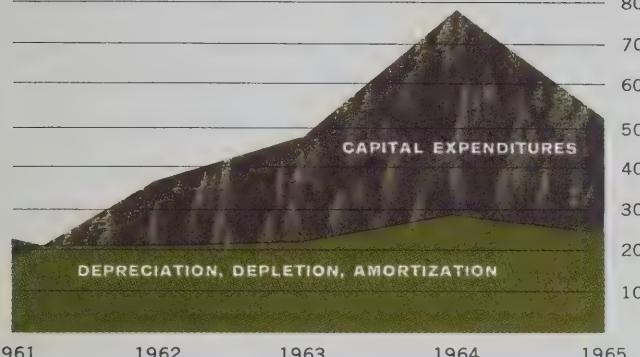
SOURCES OF WORKING CAPITAL:	1965	1964
Net earnings.....	\$40,594,282	\$41,440,597
Non-cash charges in arriving at net earnings –		
Depreciation, depletion and amortization of logging roads.....	23,976,158	29,007,429
Deferred income taxes.....	12,206,993	5,559,065
Working capital generated from operations.....	76,777,433	76,007,091
Issue of debentures (Series A – first and second drawings).....	31,376,383	—
Sale of United States Treasury notes and bonds.....	269,849	2,529,328
Amounts released by trustee for bondholders of subsidiary company.....	—	1,417,454
Issue of ordinary shares.....	270,000	—
	108,693,665	79,953,873
APPLICATIONS OF WORKING CAPITAL:		
Net additions to property, plant and equipment	52,324,668	78,439,712
Less –		
Financed by non-current liabilities.....	—	45,499,932
	52,324,668	32,939,780
Payments of, and current provision for, non-current liabilities.....	39,796,138	3,078,233
Cash dividends paid.....	20,873,355	20,846,255
Purchase of preference shares.....	3,460,708	3,163,904
Other investments and advances.....	1,877,493	18,303
Investments in subsidiary companies not consolidated, less dividends received	1,838,134	37,484,098
Other items (net).....	462,297	93,478
	120,632,793	97,624,051
DECREASE IN WORKING CAPITAL.....	11,939,128	17,670,178
WORKING CAPITAL AT BEGINNING OF YEAR.....	63,579,509	81,249,687
WORKING CAPITAL AT END OF YEAR.....	\$51,640,381	\$63,579,509

Distribution of Shares

as at February 14, 1966

Capital Expenditures

MILLIONS OF DOLLARS



	SHARES	NUMBER OF SHAREHOLDERS
Canada	15,134,083	22,343
United States	4,837,440	1,291
United Kingdom	112,669	117
Elsewhere	78,976	156
	20,163,168	23,907
Share warrants	693,087	
Total	20,856,255	

In regard to share warrants, it is estimated that 75% are held in the U.S.A. and 25% in Canada. The number of warrant holders is not known.

Finance

For the purpose of financing the current expansion at Powell River, the Company authorized the issue and sale to several institutional buyers, through Messrs. Lehman Brothers and Lazard Frères & Co., New York, of U.S. \$42,000,000 Sinking Fund Debentures Series A dated October 14, 1965 and maturing October 1, 1990, bearing interest at the rate of 4.95% per annum. The debentures are secured under a Trust Indenture dated October 1, 1965 which provides a floating charge on all the undertakings and assets of the Company, and a charge on the Company's shares in its direct subsidiary companies. Closings took place on October 14 and November 4, 1965 and January 6, 1966, at which time debentures in amounts of U.S. \$13,675,000, \$15,525,000 and \$12,800,000 respectively were issued against payment.

The Company has also authorized the creation and issue in due course of \$50,000,000 Series B Debentures in Canadian funds bearing interest at the rate of 5½% per annum, to be dated January 3, 1966, and to mature on January 3, 1976, under the Trust Indenture of October 1, 1965, combined with a Supplemental Trust Indenture dated December 15, 1965. Arrangements have been completed for the

private placement of these Series B Debentures on different dates up to December 31, 1967 as funds are required.

It is considered that, as a result of these very satisfactory arrangements, the Company has provided for its financial requirements for the expansion at Powell River and for other general corporate needs. The Trust Agreement is an open-end indenture, under which further issues may be made if required at a later date.

In regard to the Alabama project, to which reference is made later in this report, a proportion of the financing will be accomplished by the issue of tax-free Revenue Bonds of the Industrial Development Board of the Town of Camden, Alabama, in the amount of U.S. \$66,000,000. The construction of the mills will be carried out in accordance with the designs approved by the Company and under its direction. On completion, the projects will be leased to subsidiary companies by the Industrial Development Board of the Town of Camden, and payments under the leases will be made over the life of the bonds, not exceeding 20 years, with right of purchase by the lessee companies on termination of the leases.

Foreign Exchange

During the first half of the year, the Canadian dollar weakened in terms of U.S. and other currencies, but gained in strength in the second half, due to considerable Canadian financing in the United States market, and the support given to the Canadian dollar through the sale of wheat to Russia. However, towards the end of the year, the outlook

became somewhat clouded and the heavy deficit on current account with the United States, which is expected to reach a record figure, combined with the measures that have been taken by the U.S. to improve its balance of payments position, has resulted in the Canadian dollar developing some weakness in terms of other currencies.

The rates of exchange are a matter of considerable importance to the Company, in view of the very substantial sales of products that take place in U.S. dollars, Sterling

Stock Options

At the last annual general meeting the directors of the Company were authorized to establish a stock option plan whereby options would be granted to full-time selected employees to purchase ordinary shares of the capital stock of the Company on terms and conditions as determined by the directors, subject to the number of shares not exceeding 150,000 and the number of selected employees not exceeding 50 at any time. Under this plan, there are now stock

Labour Relations

There were no labour negotiations during 1965 with the International Woodworkers of America covering our logging, sawmilling, shingle and plywood operations. A two-year agreement negotiated in 1964 remains in effect to June 15, 1966.

One-year agreements effective July 1, 1965, were negotiated with the International Brotherhood of Pulp, Sulphite and Paper Mill Workers, the United Papermakers and Paperworkers and the International Brotherhood of Electrical Workers representing employees in our primary pulp and paper mills. These agreements provided for a 15¢ per hour general wage increase and the introduction of a supplementary vacation benefit. The same general settlement was negotiated with the United Papermakers and Paperworkers

Accident Prevention

During 1965, divisional accident control and supervisory training programs were the major contributing factors in achievement of a frequency rate 5% lower than that experienced during 1964. The Packaging Group showed the most significant improvement during the year. The Martin plants at Edmonton and Regina completed 1965 without accidents and the bag plant maintained its accident-free record which began when the plant commenced operation in May, 1957. Late in 1965, the B.C. Government amended

New Head Office Building

It has long been apparent that the Company must make different arrangements for office accommodation. The present building at 1199 West Pender Street, Vancouver, B.C. is quite inadequate in size, and the office staff at the present time is distributed in six locations. For many years, the Company has owned a piece of property at the corner of Georgia and Thurlow Streets, Vancouver, which is a central position and a good site from many points of view. Adjoining pieces of property have been purchased, and after consideration of a great number of alternative plans the decision has been reached to build an office building

General

There have been a number of important developments in the Company during the year, to which reference should be

and other currencies. Generally speaking, the Company benefits from the strength of those currencies in terms of the Canadian dollar.

options outstanding covering 96,000 shares, held by 49 employees. The employees to whom options were offered were appreciative of the opportunity of identifying themselves more closely with the Company's financial progress.

In the matter of selection, emphasis was in the direction of younger men in the managerial group, since it is in their hands that the future of the Company lies.

at Burnaby Paperboard and Island Paper Mills operations. Two-year agreements were negotiated with the International Brotherhood of Pulp, Sulphite and Paper Mill Workers for the Regina and Winnipeg container plants. The New Westminster container plant and the bag plant continued under the two-year agreements negotiated in 1964 with the Pulp and Paper Workers of Canada.

A fourteen-month agreement effective April 1, 1965, was negotiated with the Office Employees International Union representing 54 non-managerial office workers at Alberni Pulp and Paper Division.

Settlement terms provided for salary adjustments similar to those granted other salaried personnel in the Company under the Company's salary administration plan.

the Workmen's Compensation Act to provide for improved benefits. The amendments resulted from recommendations made by Mr. Justice Tysoe of the Court of Appeal of British Columbia acting as a Royal Commissioner to enquire into the administration and function of the B.C. Workmen's Compensation Board. Indications are that the amendments made will increase the cost to the Company of Workmen's Compensation coverage by 25% or approximately \$360,000 per annum.

on the Company-owned land. It will be a building of some twenty-seven storeys and will be built under a lease-back arrangement.

The square footage of rentable space will be about 300,000, of which the Company in the first instance will rent 120,000 square feet, with options on additional space as and when required.

A design has been selected from those submitted by different firms of architects, and it is expected that construction will commence this year, with a view to occupancy in the early part of 1968.

made. The Kitimat plans, after careful consideration of all aspects, were finally dropped. The Provincial Government

found itself unable to offer the Company a volume of timber sufficient to justify the expansion originally planned by the Company, and accordingly the offer of the Government was regretfully declined. It was a disappointing outcome to a great deal of work and effort.

Negotiations were completed for the purchase of certain assets of Albertawest Forest Products Corporation Limited, including a lease of timber in the Whitecourt area, 100 miles northwest of Edmonton. The lease confers cutting rights over approximately 7,000 square miles, and the volume of timber is sufficient to support a major expansion of the Company's activities in the forest industry. The timber stands are largely pine and spruce. There is ample water, and the preliminary engineering and feasibility studies indicate that there are good prospects for the development of pulp and other facilities in the area.

As mentioned previously in the report, the Company bought from the Government of Saskatchewan a building panel mill at Hudson Bay, Saskatchewan. This board had been marketed under the name of "Aspenite", which is sold widely in the Prairie Provinces. The market for this product is gradually broadening in response to the Company's sales efforts through its widespread organization. "Aspenite" is an interesting product, which will meet many needs where panelboard is required.

The particleboard plant in Vancouver was completed early in the year. The plant itself has been most ingeniously designed, and the product is excellent. As anticipated it will take time to expand sales to the point where the plant is running at capacity, but on the whole it can be said that progress has been satisfactory. There are a great many competitive products in this field. However, the Company is confident that the outstanding quality of this particleboard will enable it to attain a leading position in the industry, and the ever-expanding use for a product of this nature will in due course require the plant to run at capacity.

The Company has been interested for some time in the possibility of a linerboard mill in Alabama, and has made various studies of the timber and suitability of the area for a project of this nature. At the beginning of the year, an option on a millsite was purchased and feasibility studies were conducted by a firm of engineering consultants. The United Fruit Company of Boston, Massachusetts, which is engaged in world-wide trade in the food and transportation industries, became interested from the point of view of its linerboard requirements for banana boxes. The discussions developed into a firm arrangement, and in January of this year it was announced that the Company and the United Fruit Company would undertake the construction of a U.S. \$50,000,000 linerboard mill at Pine Hill, Alabama. The Company's interest in this venture is 60%, and that of United Fruit 40%. Construction will start within the next few months, and the mill should be in full

operation by late 1968. It will have an annual capacity of 270,000 tons of unbleached kraft linerboard for corrugated boxes or containers. The Company is pleased to be associated in this new development with such a long-established and outstanding organization as the United Fruit Company.

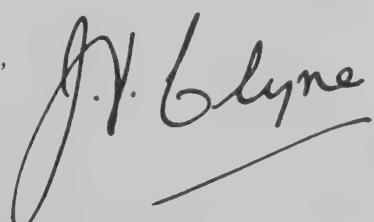
In addition to its joint enterprise with the United Fruit Company in Alabama, the Company proposes to develop on its own account plywood and lumber operations at Pine Hill, and will engage in extensive logging activity. The amount of capital required for these operations will be approximately U.S. \$19,000,000.

The Company has acquired, for the sum of \$15,000,000, a 36% interest in Koninklijke Nederlandsche Papierfabriek N.V., a prominent Dutch company long engaged in the manufacture of coated and uncoated papers. Its mills and head office are situated at Maastricht, Holland, which is a strategic position for access to the various countries in the European Common Market. This company has for many years been a customer for pulp. It is confidently believed that this closer association will be most beneficial to both companies, and will provide a means of expanding our interests in Europe. KNP intends to build a coated paper plant at Lanaken, Belgium, and expand its existing plant at Maastricht, Holland. The new mill in Belgium will have an annual capacity of 60,000 tons. As a further development the Company, in association with KNP and Spanish interests, will build a coated paper plant in Algeciras, in the south of Spain. This is a development with interesting prospects.

The foregoing reflects the Company's expanding interests abroad, and represents a logical development of the Company's policy which was initiated at the beginning of 1964 when Hygrade Corrugated Cases Limited and Cooks Corrugated Cases Limited were acquired in the United Kingdom.

The Annual Report, which is distributed not only to the shareholders but also to the employees, affords an excellent opportunity to the Board of Directors to express its thanks to the thousands of employees who through their efforts have contributed to the results in the year under review. The continued prosperity of the Company is the best guarantee of steady employment, and it is hoped that the good relations between all levels of employees will continue to grow.

On behalf of the Board,



Chairman and Chief Executive Officer

Vancouver, Canada

March 17, 1966

Historical Review

OPERATING	1965	1964
Production		
Logs.....(M FBM).....	1,339,929	1,207,872
Lumber.....(M FBM).....	1,014,757	915,206
Plywood.....(M Sq. Ft. $\frac{3}{8}''$).....	386,457	374,036
Shingles.....(Squares)	479,983	452,002
Newsprint.....(Short tons).....	843,968	790,850*
Pulp.....(Short tons).....	556,135	483,773
Kraft paper and paperboard.....(Short tons).....	173,018	159,683*
Fine paper.....(Short tons).....	17,868	14,482
Corrugated containers.....(M Sq. Ft.).....	699,881	679,291
Wages, salaries and employee benefits.....	\$101,485,089	\$ 89,500,618
Number of employees at end of year.....	14,930	14,360
FINANCIAL		
Income, all sources.....	\$437,182,442	\$413,308,840
Net earnings after income taxes		
Amount.....	\$ 40,594,282	\$ 41,440,597
Per share.....	\$ 1.95	\$ 1.99
Depreciation, depletion and amortization.....	\$ 23,976,158	\$ 29,007,429
Earnings retained in business for the year.....	\$ 15,551,676	\$ 16,425,091
Capital expenditures.....	\$ 52,324,668	\$ 78,439,712
Dividends		
Cash – Ordinary shares		
Amount.....	\$ 20,848,755	\$ 20,846,255
Per share	\$ 1.00	\$ 1.00
Cash – Preference shares		
Amount.....	\$ 24,600	—
Per share	\$.03	—
Stock		
Amount.....	\$ 4,169,251	\$ 4,169,251
Per share	\$.20	\$.20
Number of shareholders at end of year**.....	23,135	20,597

*Includes tonnage purchased during strike.

**Excluding holders of share warrants.

1963	1962	1961	1960	1959
1,156,260	1,090,170	962,413	957,576	808,272
804,102	744,024	707,792	699,463	562,637
372,054	356,974	347,523	299,335	271,844
449,323	385,423	413,565	385,841	308,787
689,296	681,448	643,576	656,318	608,499
368,152	343,982	333,932	327,550	307,386
159,635	134,825	120,971	115,592	71,108
12,089	8,429	5,194	1,986	—
665,240	669,523	606,697	624,897	631,862
\$ 81,724,493	\$ 77,526,441	\$ 74,865,659	\$ 74,369,957	\$ 63,006,764
13,430	13,074	13,282	13,108	13,383
<hr/>				
\$349,368,343	\$330,669,043	\$315,323,217	\$305,291,437	\$251,205,155
\$ 36,660,068	\$ 36,081,809	\$ 27,395,968	\$ 24,575,651	\$ 23,565,489
\$ 1.76	\$ 1.73	\$ 1.32	\$ 1.18	\$ 1.13
\$ 22,486,653	\$ 21,514,897	\$ 21,903,353	\$ 22,354,087	\$ 20,794,221
\$ 15,828,813	\$ 20,462,118	\$ 11,776,277	\$ 8,959,663	\$ 9,823,416
\$ 47,119,433	\$ 37,608,336	\$ 18,613,028	\$ 16,781,622	\$ 15,281,705
<hr/>				
\$ 20,831,255	\$ 15,619,691	\$ 15,619,691	\$ 15,615,988	\$ 13,742,073
\$ 1.00	\$.75	\$.75	\$.75	\$.66
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
18,909	18,962	18,606	16,728	14,937

CONSOLIDATED BALANCE SHEET

DECEMBER 31 1965

(WITH COMPARABLE BALANCES AS AT DECEMBER 31 1964)

	December 31 1965	December 31 1964
ASSETS		
CURRENT ASSETS:		
Cash on hand and in banks.....	\$ 2,910,587	\$ 4,107,375
Short term investments and deposits.....	375,920	1,025,408
Trade and other accounts receivable.....	50,136,170	58,015,513
Amounts receivable from subsidiary companies not consolidated.....	2,852,938	764,116
Inventories (Note 2).....	54,913,875	50,326,318
Prepaid expenses.....	1,908,149	463,062
	<u>113,097,639</u>	<u>114,701,792</u>
INVESTMENTS AND OTHER ASSETS:		
Investments in subsidiary companies not consolidated (Note 1).....	39,322,232	37,484,098
Other investments and advances, less allowance for possible loss.....	7,714,907	5,837,414
Amounts deposited with or assigned to trustee for bondholders of a subsidiary company.....	727,530	290,000
	<u>47,764,669</u>	<u>43,611,512</u>
FUNDS ALLOCATED FOR CAPITAL PURPOSES, at cost (quoted market value in Canadian funds, December 31 1965 - \$8,753,839):		
United States Treasury notes and bonds.....	7,053,811	7,323,660
Canadian Federal Government bonds, payable in U.S. funds	717,778	717,778
	<u>7,771,589</u>	<u>8,041,438</u>
PROPERTY, PLANT AND EQUIPMENT (Note 3):		
Pulp and paper mills, sawmills, plywood mills, other buildings, machinery and equipment, at cost.....	450,171,139	407,779,155
Less -		
Accumulated depreciation	249,269,249	236,173,150
Construction in progress.....	200,901,890	171,606,005
Timber and land, at cost less accumulated depletion of \$44,985,535 (1964 - \$41,696,141)	12,648,988	13,848,189
Logging roads, at cost less amortization	78,858,596	79,988,723
	<u>8,883,382</u>	<u>7,501,429</u>
	<u>301,292,856</u>	<u>272,944,346</u>
	<u>\$469,926,753</u>	<u>\$439,299,088</u>

LIABILITIES	December 31 1965	December 31 1964
CURRENT LIABILITIES:		
Bank loan	\$ 11,000,000	\$ —
Accounts payable and accrued liabilities	41,107,708	34,478,667
Income taxes payable (Note 10)	6,870,843	14,078,383
Minimum payments on non-current liabilities due within one year (Note 4)	2,478,707	2,565,233
	<u>61,457,258</u>	<u>51,122,283</u>
NON-CURRENT LIABILITIES, less minimum payments due within one year:		
Bank loan	—	36,500,000
Bonds and debentures (Note 5)	59,621,255	30,480,794
Other secured liabilities, payable in minimum annual payments, without interest, to 1974	7,013,139	8,073,355
	<u>66,634,394</u>	<u>75,054,149</u>
DEFERRED INCOME TAXES (Note 6)	<u>32,252,888</u>	<u>20,045,895</u>
MINORITY INTEREST IN SUBSIDIARY COMPANIES	<u>12,407</u>	<u>37,174</u>
	<u>160,856,947</u>	<u>146,259,501</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL:		
Redeemable preference shares with a par value of \$1 each (Note 7)	1,713,890	1,005,347
Ordinary shares without nominal or par value (Note 8) –		
Authorized – 25,000,000 shares		
Outstanding – 20,856,255 shares	<u>159,497,000</u>	<u>159,227,000</u>
	<u>161,210,890</u>	<u>160,232,347</u>
EARNINGS RETAINED FOR USE IN THE BUSINESS – per statement attached	<u>148,358,916</u>	<u>132,807,240</u>
	<u>309,569,806</u>	<u>293,039,587</u>
COMMITMENTS (Note 9)		
CONTINGENT LIABILITIES (Note 10)		
APPROVED ON BEHALF OF THE BOARD:		
J. V. CLYNE <i>Director</i>		
C. A. SPECHT <i>Director</i>	<u>\$469,926,753</u>	<u>\$439,299,088</u>

CONSOLIDATED STATEMENT OF EARNINGSFOR THE YEAR ENDED DECEMBER 31 1965
(WITH A COMPARABLE STATEMENT FOR THE PRECEDING YEAR)

	1965	1964
Sales and other income:		
Sales of products and services (Note 11).....	\$434,289,256	\$409,564,544
Equity in net earnings of subsidiary companies not consolidated (Note 1).....	1,691,886	2,166,324
Income from other investments.....	617,607	845,631
Profit on disposal of short term investments and capital assets.....	583,693	732,341
	<hr/> 437,182,442	<hr/> 413,308,840
Costs and expenses:		
Cost of sales and services.....	334,021,295	311,916,230
Selling, general and administrative expenses (Note 12).....	20,999,941	19,753,357
Interest on borrowed funds.....	3,529,120	1,840,487
	<hr/> 358,550,356	<hr/> 333,510,074
 Earnings before deducting income taxes.....	78,632,086	79,798,766
Current income taxes.....	25,830,811	32,799,104
Earnings before deducting deferred income taxes.....	52,801,275	46,999,662
Deferred income taxes (Note 6).....	12,206,993	5,559,065
Net earnings for the year.....	<hr/> \$ 40,594,282	<hr/> \$ 41,440,597
 Cost of sales and services includes the following:		
Depreciation (Note 13).....	\$ 17,405,735	\$ 22,856,227
Depletion	3,279,980	2,936,305
Amortization of logging roads (Note 13).....	3,290,443	3,214,897
	<hr/> \$ 23,976,158	<hr/> \$ 29,007,429

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31 1965

(WITH A COMPARABLE STATEMENT FOR THE PRECEDING YEAR)

	1965	1964
Balance at beginning of year.....	\$132,807,240	\$116,382,149
Net earnings for the year – per statement attached.....	40,594,282	41,440,597
	<u>173,401,522</u>	<u>157,822,746</u>
Dividends declared and paid during the year:		
On ordinary shares –		
Cash dividends – \$1 per share.....	20,848,755	20,846,255
Stock dividends (Note 7).....	4,169,251	4,169,251
On preference shares.....	24,600	—
	<u>25,042,606</u>	<u>25,015,506</u>
Balance at end of year (Note 7).....	<u>\$148,358,916</u>	<u>\$132,807,240</u>

AUDITORS' REPORT

TO THE SHAREHOLDERS, MacMILLAN, BLOEDEL and POWELL RIVER LIMITED:

We have examined the consolidated balance sheet of MacMillan, Bloedel and Powell River Limited and its subsidiary companies as at December 31 1965 and the related consolidated statements of earnings and earnings retained for use in the business for the year ended on that date. Our examination of the financial statements of the company and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiary companies.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of earnings and earnings retained for use in the business present fairly the financial position of the companies as at December 31 1965 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes, with which we concur, in the method of computing depreciation and in the basis of road amortization referred to in Note 13 to the consolidated financial statements.

Vancouver, B.C.
March 10 1966

PRICE WATERHOUSE & CO.,
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31 1965

1. PRINCIPLES OF CONSOLIDATION:

It is the company's practice to include in its consolidated financial statements the accounts of its Canadian and United States subsidiary companies but not the accounts of overseas subsidiary companies in the United Kingdom and elsewhere. The equity of MacMillan, Bloedel and Powell River Limited in the net earnings for the year of the subsidiary companies not consolidated is included in the accompanying consolidated statement of earnings. The investments in these subsidiary companies are carried on the consolidated balance sheet at a cost of \$36,564,874 plus the company's share of undistributed net earnings since acquisition.

While the carrying value of the investments is in excess of the related equity in the net assets at book value, it is not considered that any provision for amortization is required.

Current assets and current liabilities of subsidiary companies located outside of Canada have been converted into Canadian dollars at the rates of exchange in effect as at the balance sheet date, other assets and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred and items entering into net earnings at the average rates for the year.

2. INVENTORIES:

The companies' inventories comprised the following:

	December 31	
	1965	1964
Logs, pulp chips and other raw materials	\$26,003,962	\$22,336,217
Lumber, plywood and other wood products	13,399,920	13,349,813
Pulp and paper products	5,098,642	5,465,469
Packaging products	1,050,589	906,453
Operating and maintenance supplies	9,360,762	8,268,366
	<u>\$54,913,875</u>	<u>\$50,326,318</u>

Logs, pulp chips and other raw materials and operating and maintenance supplies are valued at cost or replacement cost, whichever

is the lower, and manufactured products at the lower of cost and net realizable value.

3. PROPERTY, PLANT AND EQUIPMENT:

Particulars of plant and equipment as at December 31 1965 and December 31 1964 are as follows:

December 31 1965:	Cost	Accumulated depreciation	Net book value
Pulp and paper mills	\$330,113,054	\$172,288,863	\$157,824,191
Sawmills, plywood mills and other wood products plants	56,443,739	35,400,151	21,043,588
Logging buildings and equipment	46,615,690	31,599,042	15,016,648
Packaging plants and equipment	11,911,956	6,434,571	5,477,385
Other buildings and equipment	5,086,700	3,546,622	1,540,078
	<u>\$450,171,139</u>	<u>\$249,269,249</u>	<u>\$200,901,890</u>
December 31 1964:			
Pulp and paper mills	\$307,798,876	\$160,378,424	\$147,420,452
Sawmills, plywood mills and other wood products plants	39,199,237	30,125,807	9,073,430
Logging buildings and equipment	43,165,936	36,074,021	7,091,915
Packaging plants and equipment	12,024,842	6,034,714	5,990,128
Other buildings and equipment	5,590,264	3,560,184	2,030,080
	<u>\$407,779,155</u>	<u>\$236,173,150</u>	<u>\$171,606,005</u>

The company is engaged in an expansion programme at Powell River, B.C. estimated to cost \$99,627,000 when completed of

which \$12,648,988 has been recorded in the accounts as construction in progress at December 31 1965.

4. MINIMUM PAYMENTS ON NON-CURRENT LIABILITIES:

The minimum payments on non-current liabilities in each of the five years following December 31 1965 are as follows:

1966		\$2,478,707
1967		2,611,064
1968		2,809,064
1969		2,887,064
1970		3,112,764

5. BONDS AND DEBENTURES, LESS PAYMENTS DUE WITHIN ONE YEAR:

		December 31	
		1965	1964
MacMillan, Bloedel and Powell River Limited –			
Sinking fund debentures:			
4.95% debentures Series "A" due October 1 1990 – \$29,200,000 U.S. at December 31 1965 (Canadian equivalent \$31,380,859) – at amount realized on first and second closings	\$31,376,383	\$ —	
MacMillan, Bloedel & Powell River Industries Ltd. –			
Sinking fund debentures:			
5 3/4% twenty-year debentures Series "A" maturing May 15 1978	14,059,000	15,137,000	
4 7/8% twenty-year debentures Series "B" maturing May 15 1978 – \$7,850,000 U.S. at December 31 1965 (Canadian equivalent \$8,436,292) – at amount realized	7,553,172	8,178,594	
	<u>21,612,172</u>	<u>23,315,594</u>	
Burnaby Paperboard Ltd. –			
First mortgage and collateral trust bonds:			
1955 Series –			
4 1/2% sinking fund bonds payable September 1 1975	4,357,000	4,788,500	
1958 Series –			
5 3/4% serial bonds maturing May 15 1966 to 1968	200,000	300,000	
5 3/4% sinking fund bonds maturing May 15 1978	1,915,000	1,916,000	
	<u>6,472,000</u>	<u>7,004,500</u>	
MacMillan, Bloedel and Powell River (Man.) Limited –			
4% debentures maturing January 1 1970	<u>160,700</u>	<u>160,700</u>	
	<u>\$59,621,255</u>	<u>\$30,480,794</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31 1965

(CONTINUED)

On January 6 1966 MacMillan, Bloedel and Powell River Limited received \$13,744,000 (\$12,800,000 U.S.) from the third and final closing of 4.95% Series "A" debentures, bringing the total amount realized on these debentures to \$42,000,000 U.S. (Canadian equivalent \$45,120,383).

6. DEFERRED INCOME TAXES:

It is the company's practice to claim for income tax purposes the maximum allowable capital cost allowances in respect of property, plant and equipment; such allowances for 1965 are in excess of amounts provided in the accounts. The resulting reduction of \$12,206,993 (\$5,559,065 in 1964) in income taxes currently pay-

On December 17 1965 MacMillan, Bloedel and Powell River Limited completed arrangements for the issue of 5½% ten-year debentures Series "B" of a principal amount of \$50,000,000 (Canadian) to be dated January 3 1966 and to mature on January 3 1976. No Series "B" debentures have been issued to date.

able is included in deferred income taxes in the accompanying consolidated balance sheet to be taken into earnings of future years when allowances for income tax purposes are less than the related amounts recorded in the accounts.

7. SHARE CAPITAL:

As at December 31 1964 the authorized and the outstanding 3% non-cumulative redeemable preference shares aggregated 10,541,443 shares and 1,005,347 shares respectively and the tax-paid undistributed income amounted to \$9,536,096. On January 27 1965 a stock dividend of 4,169,251 shares was declared and paid out of tax-paid undistributed income on the basis of 1 preference share for every 5 ordinary shares held. Notice of offer to purchase all outstanding preference shares was given on Sept-

ember 29 1965 and 3,460,708 shares were tendered for purchase prior to the closing date of the offer. These shares were then purchased and cancelled out of the proceeds of a debenture which was in turn redeemed prior to December 31 1965. After giving effect to the foregoing transactions, the authorized and the outstanding redeemable preference shares were reduced to 7,080,735 shares and 1,713,890 shares respectively and the tax-paid undistributed income to \$5,366,845.

8. STOCK OPTIONS:

An option, which was granted on November 4 1963 to the President of the company to purchase 10,000 ordinary shares at \$27 per share, was exercised on September 7 1965 and the shares were issued for a cash consideration of \$270,000.

As at December 31 1965 options for 95,000 shares were outstanding under the key employees' stock option plan. The options are

exercisable up to October 6 1970 at \$26.75 per share, being at least 90% of the closing price on the last business day before the options were granted. Of the total of 95,000 shares, options on 31,000 shares were granted to officers who are full-time employees of the company. No options were granted to the Chairman, Vice-Chairman or President.

9. COMMITMENTS:

In addition to commitments in connection with the expansion programme at Powell River, B.C., referred to in Note 3, the company is also committed in respect of the following:

(a) An annual rental of \$145,239 (excluding taxes, insurance and other occupancy expenses payable by the company) up to 1988 under a lease of its head office building.

(b) The hire of vessels under charter agreements for varying

periods up to October 1967 at rentals aggregating \$5,862,000 for the periods of charter.

(c) The acquisition of a minority interest in Koninklijke Nederlandsche Papierfabriek for a consideration of approximately \$15,000,000.

(d) The participation on a joint venture basis with another company in the construction and operation of a linerboard mill in Alabama, under which MacMillan, Bloedel and Powell River

Limited will be required to invest approximately \$4,000,000 U.S. and to guarantee annual lease rentals estimated at \$2,280,000 U.S. for 20 years.

10. CONTINGENT LIABILITIES:

(a) There is included in timber and land on the consolidated balance sheet as at December 31 1965, an amount of \$35,065,695, representing the cost of certain timberlands on Vancouver Island purchased from the Esquimalt & Nanaimo Railway Company, on which a provision has been made in the accounts for payment of a severance tax of 25% of the price paid. The provincial taxation authorities have assessed the value of approximately one-third of such timberlands at \$34,167,939 which would indicate that substantial additional, but as yet undeterminable, severance tax may arise if the present assessment, which is now the subject of appeal, is upheld.

(b) The company's newsprint sales agent and its subsidiary company in the United States have received preliminary assessments for the years 1960 to 1963 from the United States Internal Revenue Service for additional income taxes and penalties aggregating \$4,300,000. On the advice of U.S. tax counsel the assessments are being appealed. MacMillan, Bloedel and Powell River

(e) The commencement of construction on or before January 1 1968 of a pulp mill at Whitecourt, Alberta in order to preserve the rights to timber leases acquired at a cost of \$1,725,500.

Limited could be indirectly involved but, because of possible relief from the Canadian tax authorities, the liability – if any – to the company is not expected to be significant.

(c) By reason of the differences in the regulations and practices applicable to depreciation under the Income Tax Act of Canada and under the British Columbia Logging Tax Act, the company at present is unable to realize in full the tax reductions available through offsetting logging taxes against federal income taxes in those years that accelerated depreciation is claimed under the Federal Income Tax Act. This matter is under discussion with both governments and the company is confident that steps will be taken to remove this anomaly. Should such not be the case the company would suffer the loss of tax offset in the years 1962 to 1965 aggregating approximately \$2,000,000. However, the calculations of the tax provisions for those years have been made on the assumption that appropriate relief will be forthcoming.

11. SALES OF PRODUCTS AND SERVICES:

Sales, as in prior years, include the sales of products for account of, or purchased from, other manufacturers on which the margin

of gross profit realized by the company is substantially less than that realized on the sale of its own manufactured products.

12. DIRECTORS' REMUNERATION:

The total remuneration received during the year by the directors

in their capacities as directors, officers, or employees was \$544,083.

13. DEPRECIATION AND AMORTIZATION:

As in the preceding year, depreciation was computed for 1965 on a straight-line basis at rates varying from 2½% on buildings to 15% on logging equipment. However, certain changes were introduced in the method of applying the straight-line basis of

depreciation which, when combined with a change from the diminishing balance basis of amortizing logging roads to a basis related to log production, had the effect of increasing consolidated net earnings for the year by approximately \$3,000,000.



When an oil well goes dry, or when a coal seam is exhausted, the industry that depends on those resources for its raw material must move to another location to seek new supplies. But the industry based on the forest resource is different. It depends on a raw material that can be renewed . . . forever, and the great timber stands of North America are constantly being restored and rejuvenated.

MacMillan, Bloedel and Powell River's timber reserves range from the coniferous rain forests of coastal British Columbia, to the deciduous woods of Saskatchewan and the fast-growing pines of Alabama. They include eight main tree species, and among them are all the characteristics of strength, durability, fibre length, stability, and beauty of grain needed for the Company's forest products - lumber, plywood, shingles, particleboard, panelboard, chemical pulp, newsprint, fine papers and kraft linerboard.

Western Red Cedar, while not a true cedar as is the biblical cedar of Lebanon, has some similar qualities. MB&PR uses it for shingles, siding and interior finishing. Hemlock produces a superior

woodpulp. Douglas Fir is the best source of dimension lumber where strength is required, and so on. Therefore, each species lends itself to specific uses because of special characteristics. Each species thrives in different growing conditions. Douglas Fir, Hemlock, Cedar and Spruce prefer the generous rainfall and mild temperatures of the Pacific coast; Aspen grows best in Saskatchewan, and southern pine thrives in the warm climate of the deep south. In all these varied forest areas, MB&PR has large stands of the regional species, all managed on a sustained yield basis for long-term corporate stability. They are a source of raw materials which will never be exhausted.

On the next few pages we have provided an illustrated sampler of the main species from which the MB&PR family of forest products is created. We have listed the distinguishing characteristics and the principal products made from each tree to indicate the versatility of the Company's forest resources, not only as raw materials for today's products, but for the new products that will emerge from the laboratories tomorrow.



DOUGLAS FIR

Pseudotsuga menziesii

Leaves are needle-like and somewhat flattened. They are $\frac{3}{4}$ to $1\frac{1}{4}$ inches long, bright green or blue-green in colour. They grow on slender, orange-brown twigs. Buds are about $\frac{1}{4}$ inch long.

In the fall, the Douglas Fir produces an oval, reddish-brown cone 2 to $4\frac{1}{2}$ inches long. The cones open at maturity and fall soon after. Cone scales are thin, rounded and stiff.

The Douglas Fir is the largest tree native to Canada. It grows as high as 300 feet with a trunk diameter from 3 to 15 feet. The trunk is straight and often clear of branches to a height of 70 feet. On older trees, the bark can be 4 to 12 inches thick, deeply furrowed into dark, reddish-brown ridges. The commonest variety occurs on the coast of British Columbia.

The Douglas Fir is one of the most valuable tree species in Canada because of its great strength. It is used for plywood, interior finishing, siding, flooring, dimension lumber, large structural timbers, and pulp.



WESTERN HEMLOCK

Tsuga heterophylla

Hemlock needles grow on gracefully drooping twigs and branchlets. The needles are small and narrowly elongated, $\frac{1}{4}$ to $\frac{3}{4}$ of an inch long. They are a dark shiny green on the upper surface with 2 white stripes below.



The Hemlock in August forms ovoid light brown cones $\frac{3}{4}$ to 1 inch long. They open in September and fall during the winter.



Western Hemlock thrives on abundant rainfall and is found only in the wet belts of British Columbia. It usually occurs in mixed stands of fir, spruce and cedar and grows to a height of 120 to 160 feet, with a trunk 3 to 4 feet at the base. The tip or leader of the tree is distinguished by its drooping appearance.

Western Hemlock is the most valuable source of pulpwood in British Columbia, including groundwood pulp for newsprint. It is also used as lumber in general construction.

WESTERN RED CEDAR

Thuja plicata



Leaves of this species are scale-like and blunt, $\frac{1}{8}$ to $\frac{1}{4}$ of an inch long in overlapping pairs, each pair at right angles to the pair below.

An erect, oval cone is formed August-September. It is about $\frac{1}{2}$ inch long and composed of 4 to 6 pairs of thin brown scales. They open at maturity but stay on the tree over the winter.

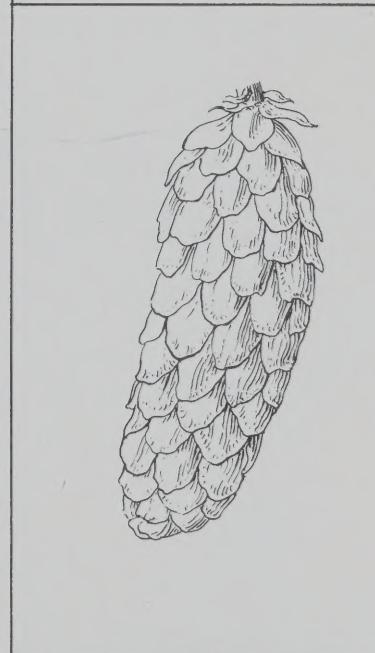
In Canada, Western Red Cedar is found only in British Columbia. It is one of the largest trees in the Pacific region and also one of the oldest. It grows 150 to 200 feet in height, more than 8 feet in diameter, and specimens up to 800 years of age have been recorded. Its bark is thin and fibrous, cinnamon red on young trees and grey on older ones.

Red Cedar stock is light, soft and fragrant. It is especially resistant to decay and is used for shingles, shakes, siding and for interior trim. Cedar particles are used to make K3 particleboard.



SITKA SPRUCE

Picea sitchensis



Sitka Spruce has slender, needle-like leaves which bristle out on all sides of the twig. They are $\frac{1}{2}$ to $1\frac{1}{8}$ inches long and vary in colour from a yellow-green to blue-white. Twigs are stout and stiff with buds $\frac{1}{4}$ to $\frac{1}{2}$ inch long.

This variety of Spruce produces a cylindrical cone, pale yellow to reddish-brown. Cones are $2\frac{1}{4}$ to 4 inches long with thin, stiff scales, wedge-shaped and finely-serrated at the edges. They open at maturity and fall during the late autumn and early winter.



Sitka is the largest of all the Spruces and grows in a narrow band along the Pacific coast, seldom extending more than 50 miles from salt water. It is most abundant in the Queen Charlotte Islands. Fully grown trees average 3 to 6 feet in diameter, with a height of between 125 and 175 feet. Bark is very thin in large, reddish-brown scales.

Sitka Spruce stock is mostly free of defects, straight and even-grained. It is sometimes referred to as aeroplane spruce because of its wartime use in air frame construction. It is also valuable as pulpwood.

BALSAM FIR

Abies amabilis



Leaf needles of Balsam Fir are $\frac{3}{4}$ to $1\frac{1}{4}$ inches long, notched at the tip, and are a dark shiny green. Twigs are stout with minute hairs. Buds are a shiny purple, round and resinous.



Cone of the Balsam Fir is formed in September, cylindrical and dark purple in colour, $3\frac{1}{2}$ to 5 inches long. Scales are nearly as broad as they are long. The cone disintegrates in October, dropping yellowish-brown seeds.

Balsam Fir, or Amabilis Fir, is confined mostly to the western slopes of the Coast Range and on Vancouver Island. It grows to a height of 80 to 100 feet or more with a trunk diameter of $1\frac{1}{2}$ to 3 feet. A distinctive characteristic is its bark which is thin and smooth, pale grey and marked with conspicuous white splotches.

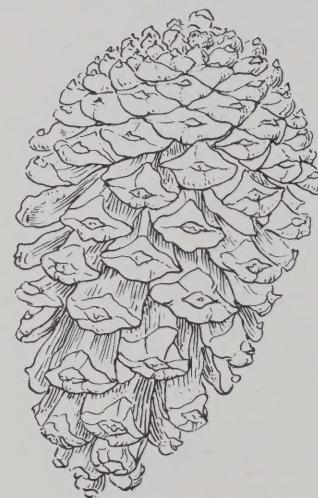
Balsam Fir frequently grows alongside Hemlock. The two trees are logged together and are frequently referred to as "HemBal". It is a prime source of groundwood pulp for newsprint and is also valuable for lumber.



SHORTLEAF PINE

Pinus echinata

Needles of the Shortleaf Pine are 3 to 5 inches long, usually 2 to a bundle, or fascicle. They are a dark yellow-green. Twigs are a reddish-brown and the buds have red-brown scales.



Cones are $1\frac{1}{2}$ to $2\frac{1}{2}$ inches long, oblong to conical, and are armed with a small, sharp prickle. Seeds are $\frac{3}{16}$ inch long, borne on $\frac{1}{2}$ -inch-long wings.



This is a medium-sized to large species 80 to 100 feet in height and 2 to 3 feet thick. Bark is rough and scaly. It is reddish-brown and separated into flat plates.

The Shortleaf Pine grows best on dry upland soils but in more moist areas it is found mixed with Loblolly Pine and various hardwoods. It occurs generally throughout the southern states, except for the Appalachian and the Florida peninsula areas.



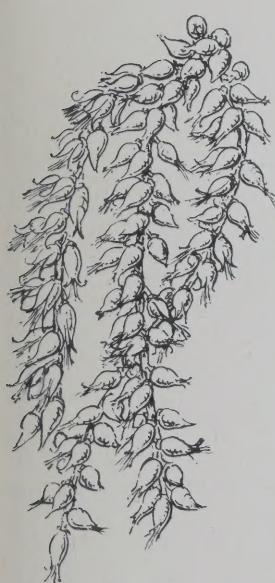
An unusual feature of this species is that a tree up to ten years old will sprout from its base after the main trunk has been cut, or destroyed by fire. The sprouts will ultimately attain commercial size. Shortleaf Pine is a valuable source of lumber, plywood and pulp.



TREMBLING ASPEN

Populus tremuloides

Aspen leaves are almost round in outline but abruptly pointed. They are a shiny dark green on their top surface, yellowish-green below. They move on their long stems in the slightest breeze, giving the species its name. It is sometimes called quaking aspen, or popple.



Seeds are contained in small green capsules $\frac{1}{4}$ inch long, arranged in catkins. These open at maturity.

Trembling Aspen is found in almost every part of Canada, including the far north. In MB&PR's Saskatchewan forests it averages about 60 feet in height and 8 to 10 inches through the trunk. It reproduces quickly by means of root suckers. Bark on young trees is smooth but becomes grey-brown and roughly furrowed with age.

Aspen wood, when chipped, is formed into a strong, attractive building panel called Aspenite at MB&PR's plant in Saskatchewan.



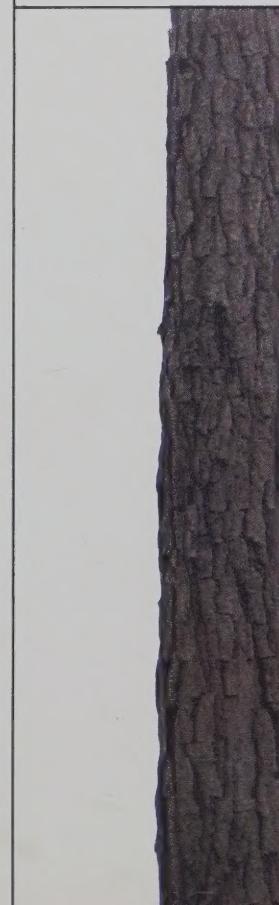
LOBLOLLY PINE

Pinus taeda

The Loblolly Pine produces needles 6 to 9 inches long, usually in bundles of 3. They are slender and yellow-green in colour and grow from brown twigs. Buds are covered with reddish-brown scales.



The cone of the Loblolly Pine is 2 to 6 inches long, narrow and conical. Seeds are about $\frac{1}{4}$ inch long, rough and dark brown with black markings. There is abundant seed production after the tree is about 25 years old.



This species is sometimes known as "old field pine" because it establishes itself so successfully in pure stands on old fields in the deep south. It ranges along the Atlantic and Gulf coastal plains in the U.S. Loblolly Pines grow to a height of 90 to 110 feet with a trunk diameter of 2 to $2\frac{1}{2}$ feet.

Bark on mature trees is $\frac{3}{4}$ to 2 inches thick with brownish, irregular patches. In the Company's Alabama complex, Loblolly Pine will be used for linerboard, lumber and plywood.

